



HOW MUCH DEBT CAN YOU HANDLE?

Before you consolidate your debt with a home equity loan, personal loan or re-financed mortgage, think about how much debt you have now. Is it too much? Will getting a new loan help or hurt you?

Step 1. What is your monthly gross income?

EITHER Multiply your hourly pay x hours worked in a week x 4.2 weeks in a month.

Hourly pay: \$ _____
x _____ hours
Weekly pay: \$ _____
x 4.2 weeks
Monthly pay: \$ _____ (Answer)

OR Divide your yearly salary by 12 months.

Yearly salary: \$ _____
: 12 months
Monthly salary: \$ _____ (Answer)

If you have two wage earners in the home, add the two together. Add monthly social security, disability and child support payments, too.

Monthly salary #1 \$ _____
Monthly salary #2 \$ _____
Social Security \$ _____
Disability \$ _____
Child Support + \$ _____

Total Monthly Income: \$ _____ (Answer)

Step 2. Multiply your monthly income by 30%.

It is best to spend 30% or less of your income on housing. Do not stretch any further. 25% is even more manageable.

REMEMBER: Just because a lender says you can afford a certain house payment, doesn't mean that you can. You must use a budget to make sure that you can afford the payment. Lenders give you the highest amount they think you can afford. You can agree or chose a lower amount.

Monthly income:	\$	
		$\times .30$
Maximum mortgage payment	\$	(Answer)

This amount must include everything: principal, interest, taxes and insurance.

Step 3. Multiply your monthly income by 11%.

Lenders want you to repay them so limit the amount of total debt you can have to 41%. If you are spending 30% of your income on a house payment, up to 11% of your income can be used for debt *other* than the mortgage.

Monthly income:	\$	
		$\times .11$
Maximum other debt	\$	(Answer)

What do you think of this amount? Are you on target or do you have too much debt or don't you know your total monthly debt re-payment amount?

Step 4. Add your current monthly debt payments.

Remember, debt is different than bills. Bills are gas, electric, phone, cable, insurance, food etc. Debt is paying something back that you have borrowed.

Car payment / lease	\$	
All monthly credit card payments	\$	
Monthly student loans payments	\$	
Child support paid out	\$	
Other monthly debt payments	+	\$ _____
Total current monthly debt payments	\$	(Answer)
Maximum other debt allowed:	\$	(Answer Step 3)

How does your total monthly debt payment amount compare to the maximum debt that you should have?

If you already have more consumer debt than 11% of your monthly income, do not get another loan. Increase your income or decrease your debt before you borrow more money or charge more purchases. Do not dig a deeper hole.

If you want to consolidate debt, try to do it without involving your house. Only do it if you can afford the new payment, it reduces the interest you are paying and you stop spending more than you have.